

THE STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

September 3, 1998 9:10 a.m.

>>>>>TRACK 2<<<<<<

Concord, New Hampshire

DAY III

RE: DR 97-171

BELL ATLANTIC: Review of SGAT.
(Hearing regarding Track 2.)

PRESENT: Chairman Douglas L. Patch, Presiding
Commissioner Bruce B. Ellsworth
Commissioner Susan S. Geiger

Mary Hart, Clerk

APPEARANCES: Reptg. Bell Atlantic:
Victor Del Vecchio, Esq.
David A. Schulz, Esq.

Reptg. AT&T Communications of New England:
Kenneth Salinger, Esq.
Matt Schaeffer, Esq.

Reptg. Vanguard:
David Shulock, Esq.

Reptg. Residential Ratepayers:
William Homeyer
Office of Consumer Advocate

Reptg. PUC Staff:
Barclay Jackson, Esq.

Court Reporter: Steven E. Patnaude, CSR
Samuel S. Gray, CSR

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WITNESS: CATHERINE E. PETZINGER

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{DE 97-171} [Track 2 - Day III] (9-03-98)

P R O C E E D I N G S

CHAIRMAN PATCH: Good morning. I'd like to reopen the hearings in DR 97-171. And, start the morning by taking appearances.

MR. DEL VECCHIO: Good morning, Mr. Chairman, Commissioner. Victor Del Vecchio representing Bell Atlantic. And, with me this morning is Stanley Baker and William O'Brien, as well as others.

MR. SALINGER: Good morning. Ken Salinger, for AT&T. With me, my colleague, Matt Schaeffer.

MR. SHULOCK: Good morning. David Shulock, of Brown, Olson & Wilson, P.C., for Vanguard.

MR. SCHULZ: Good morning. David Schulz, of Rogers & Wells, for Bell Atlantic.

MR. HOMEYER: Good morning. William Homeyer, for the OCA.

MS. JACKSON: Good morning. I'm Barclay Jackson. I'm here representing the staff of the Commission. And, I have with me representatives from the Engineering and Economics Department, as well as staff's consultant, Dr. Johnson.

CHAIRMAN PATCH: Okay. I think when we left off yesterday, Mr. Salinger, you were still doing your direct.

[Witness: Petzinger]

1 MR. SALINGER: Yes. Ms. Petzinger
2 had just begun her opening statement, and I would ask that
3 she continue.

4 CHAIRMAN PATCH: Okay.

5 (Whereupon Catherine E. Petzinger
6 was recalled to the stand, having
7 been previously sworn.)

8 CATHERINE E. PETZINGER, PREVIOUSLY SWORN

9 CONTINUED BY THE WITNESS:

10 A Thank you. Okay. As I mentioned, the stipulation used
11 a melded discount, in order to generate the SCIS
12 results. And that, regardless of what numbers you use
13 in that melding, what weighting you give, I mean,
14 whether it's 80/20 or 70/30, it is truly inappropriate
15 to use a melded discount in the SCIS. The SCIS model
16 was originally developed to estimate the cost of a new
17 switch, assuming that it was purchased and placed
18 today. And, that is why there is only one primary
19 discount input in that SCIS. If it was meant to be
20 able to do both new and growth scenarios, it would have
21 asked for two different inputs. It doesn't do that.

22 Now, in addition, of course, Bell Atlantic
23 has agreed that it has not included growth equipment,
24 and that's because SCIS is not capable of doing a new

[DE 97-171] [Track 2 - Day III] (9-03-98)

[Witness: Petzinger]

1 and growth life-cycle type cost analysis. It is
2 something called a "snapshot in time" model. And,
3 almost all of the cost models that you're looking at
4 today have that same type of methodology underlying
5 them. An SCIS simply cannot do that type of costing.

6 Now, in SCIS, there are different categories
7 of equipment. One of which is the getting started cost
8 of the switch. Now, the getting started cost is
9 defined as "that equipment that is purchased to get the
10 switch up and running, regardless of the number of
11 lines or number of trunks or the amount of traffic
12 that's on the switch." So, it's truly just a first
13 cost or getting started cost of the switch, and that is
14 a fixed cost. It does not change over time. It is
15 there to serve all of the traffic that will ever appear
16 on that switch. Now, what happens is that first cost
17 of a switch is always purchased with the initial
18 installation of the switch. So, it will always
19 receive, always should receive a new discount. When
20 you put a melded discount into SCIS, it now is going to
21 apply that melded discount, for example, to this new
22 switch getting started cost. Totally inappropriate,
23 and just simply should not happen. And, this amount of
24 this equipment is not inconsequential in the overall

[Witness: Petzinger]

1 scheme of things. It does represent at least 30
2 percent of each switch investment. So, that's a
3 substantial amount of investment that's being
4 inappropriately discounted, no matter how you define
5 the melding.

6 Now, in my testimony, on Pages 16 to 18, I do
7 discuss in detail why I believe a new switch price is
8 the most relevant price for a TELRIC cost study, and I
9 still believe this is the correct way to perform this
10 type of a cost study underlying the unbundled network
11 elements.

12 Now, in addition, the numbers that were
13 actually used, the discount values that were actually
14 used as part of this melding process, I also believe
15 are incorrect. Although you can go through the
16 contracts that Bell Atlantic has provided in this case
17 and actually pick out those numbers from the old 1994
18 contracts, I don't believe they represent the
19 forward-looking cost of switching that they are
20 supposedly reflecting in this cost study. Now, more
21 recent contracts that were provided do indicate
22 significantly lower prices for switch equipment. The
23 contracts also include a fairly large wide range --
24 wide-ranging variety of terms and conditions that will

[Witness: Petzinger]

1 further lower the price, that are not explicitly a
2 discount off of list. So, there's other types of terms
3 and conditions in these contracts that affect pricing
4 that is not just discount-related. And, I could go
5 into the specifics, but they are highly proprietary,
6 and, so, to avoid going into closed session, I was not
7 going to enumerate them here. But they can be found in
8 the Exhibit 79A and B that were provided. If you would
9 like me to go into them, I could.

10 Now, when reviewing the switch contracts data
11 that we do have, in order to validate the stipulation
12 numbers, it's important to keep the fact that TELRIC
13 cost principles are part of this process. And, in a
14 TELRIC cost study, the correct price is the cost
15 efficient price of switches, not the embedded cost and
16 not what they paid in the past. So, the idea of the
17 "long run" principle in TELRIC means that Bell Atlantic
18 is not limited to saying that "I've got this switch in
19 place in this particular wire center, and what's the
20 price of it". It allows them to vary what is out
21 there. The only thing they have to keep constant is
22 where the wire centers are located. They do not have
23 to assert that a particular technology is in a given
24 wire center. So, therefore, yesterday I know there was

[Witness: Petzinger]

1 a big discussion of the difference between the Nortel
2 and the Lucent discounts, and whether or not they're
3 equivalent. We don't even have to get into that kind
4 of detail. Because, in one of the contracts in those
5 Exhibits 79A and B, you will see a contract very
6 explicitly that states what is the price of growth
7 equipment on a flat rate per line. You don't have to
8 worry about what the list price is or what a discount
9 percentage is. It's just a number. And, that's a very
10 clean way to look at it. Because that number also
11 includes software, and it includes other features and
12 functions as well. Now, it is true that that contract
13 only exists for one vendor at this time. However, it
14 is the most recent contract. And, it would be
15 expected, and very reasonable to expect, that as these
16 vendors compete on price, with the incumbent ILECs,
17 that it would be very reasonable to assume that they're
18 going to go back out and ask the other vendors for
19 similar contracts and that kind of structure.

20 CMSR. GEIGER: Can you say with any
21 degree of certainty what those discounts will be in the
22 future? Again, we're looking at historical information,
23 aren't we?

24 THE WITNESS: I would say that what

[Witness: Petzinger]

1 you want to look at is the trending of the contract
2 information. The older the contracts are, the lower the
3 discounts. If you look at -- And the contract that was used
4 yesterday, the contract that was used to discuss that
5 embedded analysis, was a combination of a contract that we
6 did not receive, because, apparently, it's out-of-date.
7 And, then, in addition, with the Megabid contract, it was
8 signed in 1994. There are more recent contracts. If you
9 look at those contracts, you will see the discount
10 continuing to decline.

11 In addition, in the Northern Business
12 Information Report, they predict that switch prices have
13 been coming down about three percent per year. Those folks
14 track the central office equipment market, have been doing
15 so for a long time and considered an expert.

16 CMSR. GEIGER: I want to make sure
17 the record's clear. You said the "discounts declined in the
18 more recent contracts". You mean that the discounts
19 actually increased?

20 THE WITNESS: Excuse me.

21 CMSR. GEIGER: In other words,
22 there are greater discounts and the overall price is coming
23 down?

24 THE WITNESS: Yes. Exactly. I'm

[Witness: Petzinger]

1 sorry if I misspoke.

2 CMSR. GEIGER: Okay. Thank you.

3 THE WITNESS: Yes. The discounts
4 are increasing, and the overall price declining. That's
5 right. But the NBI substantiates about a three percent
6 decline in overall prices, and a Dr. Houseman, on behalf of
7 Pacific Telephone, recently put in some testimony that
8 showed that, in his analysis of switching costs, that
9 they're declining by eight percent a year. So, if you look
10 at 1994 prices and apply either one of those ranges, you're
11 going to see some quite significant decreases.

12 CONTINUED BY THE WITNESS:

13 A The leading switch manufacturers, though, do provide
14 almost essentially features and functionality. So
15 that, typically, the only thing that they are competing
16 on in the marketplace is primarily price. If you look
17 across the country, the split between the two leading
18 vendors ranges any, at any given time, between 40/60,
19 50/50, something like that. And, then, you know,
20 reversing over to the 60/40, depending on what vendor
21 you're referring to. And, that's because the RBOCs are
22 trying to make sure that these vendors are competing
23 against each other and they are getting the most
24 efficient, cost-effective market-based price for these

[Witness: Petzinger]

1 switches.

2 Now, Dr. Gabel's switch prices --

3 CHAIRMAN PATCH: I'd like to follow
4 up with one question, I guess.

5 THE WITNESS: Sure.

6 BY CHAIRMAN PATCH:

7 Q In thinking back on some of the testimony that's been
8 offered this week in Exhibit Number 76, which is
9 proprietary, and I won't ask specific questions, but we
10 had seen there the actual costs for the switches.

11 A Uh-huh.

12 Q And, as I read that, I guess what you're essentially
13 saying is we ought to ignore the older, if you look at
14 the "service date" column there, we ought to ignore the
15 older ones and look at the more recent ones, because
16 you're saying the more recent ones are a more accurate
17 indicator of what the actual cost of the switches is
18 going to be. Is that fair to say?

19 A Yes, I would say that that's true, with a reservation.
20 As was mentioned, to be fair to Bell Atlantic, the only
21 new switches are host switches. However, if you look
22 at another situation, unfortunately, I just feel that
23 this particular analysis is not a good one to start
24 from. It is backward-looking, it is historical costs.

[Witness: Petzinger]

1 None of these are terribly recent, and it certainly
2 isn't a representative sample of the switches in New
3 Hampshire. For example, all of these remotes, if you
4 look at the line sizes on all the remotes that were
5 purchased in 1992 and have 1992 prices on them, all
6 those line counts are fairly small. Now, remotes are
7 small switches, by definition. However, Mr. Baker even
8 said that the average remote in New Hampshire, and I
9 verified this in data that we had received as well,
10 that the average size remote in New Hampshire is about
11 3,000 lines. None of these remotes have 3,000 lines on
12 them. And, as you can see, they all start with around
13 the same range of prices, regardless of what size they
14 are. So, what happens is, when you go to a very small
15 line size remote, the price goes up significantly. So
16 that, if these were truly representative and were 3,000
17 lines remotes, none of these prices on this page
18 accurately reflect the price for the average remote
19 that's actually in New Hampshire today. Not to
20 mention, of course, the prices are old and should be --
21 would be lower if you used current contract prices.

22 Q So, I guess you're telling me that, number one, that
23 the -- where it says "remote switches" there, the
24 dollars that we see in Column 1 are higher than what

[Witness: Petzinger]

1 they would be paying in today's market for the same
2 kind of remote switch?

3 A Yes. And, when you express this on a per line basis,
4 in Column 9, they're simply taking Column 1, which is
5 the total investment, and dividing by the number of
6 lines. Now, if you look at all the remotes, the
7 numbers are, in Column 1, are very similar. So, if you
8 take one of those numbers and divide by the average of
9 3,000 lines, and I wish I had done the math, I'm not
10 sure what that would come up to be on average, even
11 using the old prices, that number, for the average
12 remote in New Hampshire, is going to be substantially
13 less than what you see identified as the "switch cost
14 per line" in Column 9 for the remotes on this piece of
15 paper.

16 Q Well, then, what about Exhibit Number 87, where they,
17 as I understand it, took the data from Exhibit 76 and
18 made some adjustments to it, you know, did some
19 weighting that tried to more accurately reflect the
20 number of stand-alone and remote switches in the state?

21 A Uh-huh.

22 Q And made some adjustments to those numbers, and, in
23 fact, ended up with a higher number overall. So,
24 what's wrong with Exhibit Number 87 then? Because I

[Witness: Petzinger]

1 thought 87 took the sample that is in 76 and tried to
2 adjust it, to reflect the fact that those numbers
3 perhaps could be skewed, because they were, you know,
4 because they had more remotes than are reflected in the
5 state or more stand-alones than are reflected in the
6 state.

7 A Uh-huh.

8 Q I thought some adjustments were made on Exhibit 87.

9 And, in fact, when you make those adjustments, it goes
10 in the other direction than I'm sure what you would
11 like to see it go.

12 A Yes.

13 Q So, what's wrong with 87?

14 A Exactly.

15 Q And, maybe you were going to get to that anyway,
16 though.

17 A Yes. There's a lot of things going on in 87. I think
18 the first thing we have to do is take a look at the top
19 lines, where they show what the starting number is that
20 they're starting with, which is the stand-alone number
21 and the remote number, and these are dollars per line.
22 Okay? Those starting numbers are not adjusted for any
23 weighting or anything. This is before that. These are
24 supposedly the numbers, just as averages off of this

[Witness: Petzinger]

1 page, as I understood it. And, what I'm saying at this
2 point is that, especially the remote number, and is
3 this remote number proprietary?

4 Q I don't think so.

5 A Then, should I say it? Am I allowed to --

6 Q Exhibit 87, as I understood it, the only thing that was
7 proprietary was that "Mega" and "Bid 90" box, --

8 A Okay.

9 Q -- sort of right on the page off to the right.

10 A So, the remote number of \$333, I'm saying that this
11 whole analysis, which is an attempt to validate the 325
12 number that was arrived at from a different process,
13 that that number right there, that's starting off the
14 validation, is too high, by a large amount.

15 Q Why?

16 A Okay. This is the cost of the -- this is supposedly
17 the average switch price per line for the remotes from
18 Exhibit 76, right?

19 Q Right.

20 A Now, and what I'm saying is that that number was
21 derived from this data, the 333.

22 Q And you're saying -- And just to paraphrase what I
23 heard you say before, you're essentially saying that
24 the remotes that were used as examples had too few

[Witness: Petzinger]

1 lines on them, so that they weren't representative of
2 sort of the average for a state, for the state, in
3 terms of the numbers of lines served by a remote?

4 A Exactly. So that --

5 Q So, the cost per line is higher than it should be?

6 A Much higher. Yes. The lines, I mean, you can see for
7 yourself that the number of lines on these remotes,
8 there are large numbers of them that are much, much
9 smaller than the 3,000 line average. And, then, of
10 course, we got a couple that, you know, with the other
11 issue that you had mentioned earlier, too, these are
12 also based on old prices that have not been adjusted,
13 as I understand it, in any way on this piece of paper.
14 So, I mean, what he's done on this piece of paper, I
15 think, to be honest, is that they have attempted a
16 validation of their embedded costs, and have done a
17 reasonable job. But the point is, embedded costs are
18 not what is relevant in this proceeding. We're trying
19 to get to what is the forward-looking cost of
20 switching.

21 The reality is, what we're trying to do here
22 is set up pricing similar to what would be occurring in
23 a competitive market, and the way to simulate that is
24 "What would the new entrant face? What would it cost

[Witness: Petzinger]

1 them to place new switches?" And, that should be the
2 benchmark for the pricing of the unbundled elements.

3 So, the old embedded data simply, not only do
4 I think it does not necessarily accurately represent
5 even the embedded data, because it doesn't have the
6 right number of lines compared to today's switches, but
7 it simply it represents old dollars and old technology
8 as well. The newer technology has more capacity
9 typically, resulting in lower cost.

10 BY CMSR. GEIGER:

11 Q Ms. Petzinger, I want to remember or remind myself of
12 what your earlier testimony was with respect to the
13 3,000 line figure, as it relates to the cost of a
14 remote switch. Is it your testimony that 3,000 is the
15 average number of lines associated with a remote switch
16 in New Hampshire? Is that what you're saying?

17 A Yes. I verified that myself, when I looked at the data
18 that was provided, and Mr. Baker also mentioned I think
19 the term -- the number "3,100 lines" yesterday was the
20 average. So, we're in the same ballpark. There's
21 probably a slight difference in vintage of the data
22 there that explains the difference.

23 Q Okay. So, just to recap, you're saying that, because
24 none of the remote switches that are identified on

[Witness: Petzinger]

1 Exhibit 76 are above 3,000 or around 3,000, that those
2 figures are too high?

3 A That, plus the fact that it was old contract data.

4 Q Okay.

5 A For all of the remote data was the 1992 data, the year
6 1992.

7 CMSR. GEIGER: Thank you.

8 CONTINUED BY THE WITNESS:

9 A Okay. Going on, to try to find out what are the
10 benchmarks for some forward-looking switching, as
11 opposed to focussing on the backward, Dr. Gabel's data,
12 that was cited by Dr. Johnson, I think also
13 corroborates that, not only was the original \$700
14 approximately per line in the original switch study too
15 high, but the \$325 agreed to in this proceeding, the
16 stipulation, excuse me, is too high. Now, Dr. Gabel's
17 data is obtained from switches across the country, and
18 there was an issue of whether or not that data should
19 be used here in New Hampshire. And, what I'd like to
20 do is share with you some information that I found out
21 from the data provided. New Hampshire's host and
22 stand-alone switches, now these are hosts without the
23 remotes, I have not been able to investigate the data
24 to find out what the host plus its remote line counts

[Witness: Petzinger]

1 are. But, if you just look at the host and the
2 stand-alone switches, in New Hampshire, they are
3 averaging 25,000 lines. That is a reasonable size
4 switch. Granted, it doesn't compare to downtown
5 Manhattan switches. But the switches across the
6 country, also in Mr. -- Dr. Gabel's study, don't look
7 like downtown Manhattan. Some of those may be in
8 there, but that doesn't mean that that represents the
9 average. The average is very similar to what we see in
10 New Hampshire.

11 Now, in addition, New Hampshire has a very,
12 very large number of remote switches. When you merge
13 those together, the kinds of numbers you heard
14 yesterday about the average number of lines per switch
15 appear very low. But, in reality, remotes are a very
16 efficient way to provide service in a forward-looking
17 network. The high ratio of remotes in New Hampshire,
18 to me, tells us that there is a reasonably efficient
19 network architecture deployed throughout New Hampshire.
20 And, the fact that these remotes are operating at
21 approximately 3,000 lines, that is also a very
22 efficient use of remotes. Typically, you will see
23 something that they will, although it's not the
24 absolute capacity, but usually you won't see them

[Witness: Petzinger]

1 operating at more than 4,000 lines. So, they are
2 operating at very good, efficient levels, meaning that
3 the costs of these remotes should be very reasonable.

4 Now, all these factors, both the large host
5 switches and the efficient use of the remotes,
6 contribute to what I consider to be a cost-effective
7 switch deployment in New Hampshire that is comparable
8 to other RBOCs used in Dr. Gabel's study. Now, what I
9 did was I took Dr. Gabel's study, which consists of a
10 fixed plus a variable cost per line for each switch,
11 and I applied it to the switches in New Hampshire.
12 And, what I came out with was a total installed cost of
13 \$146 or \$156. Dr. Gabel actually has two sets of data
14 in his study. But that was the range.

15 BY CHAIRMAN PATCH:

16 Q How did you arrive at that figure again? You just
17 described it briefly, if you would just --

18 A Okay. Yes. Dr. Gabel's data consists of a fixed cost
19 for each switch, and he has a different fixed cost for
20 a host versus a remote. And, obviously, a remote has a
21 very small fixed cost, compared to a large host switch,
22 and then you've got a variable cost per line. So,
23 because I knew how many host switches there are, how
24 many remote switches there are, and how many lines on

[Witness: Petzinger]

1 hosts and how many lines on remotes, I was able to just
2 do the math, multiplying all that out, and come up with
3 the total investment and divide by the total number of
4 lines. And, it works out to be between 146 and 156,
5 depending on which set of Dr. Gabel's data I used.

6 Now, if we compare that to 325, which is the
7 direct comparison, again, it's severely overstated, the
8 \$325. Now, the price for switch equipment paid to the
9 vendor, as is clear from what you've heard so far, is
10 only one part of the total installed cost of a switch.
11 And, what I'd like to do is review each component and
12 highlight where the Bell Atlantic stipulation still
13 reflects overstated costs. Maybe the easiest way to do
14 this would be to refer to, in Exhibit 62, it was
15 approximately the seventh sheet back, and it was
16 labeled "New Hampshire - Switch Results Filed Versus
17 the Stipulation".

18 CHAIRMAN PATCH: You said the
19 seventh sheet, was that?

20 THE WITNESS: About the seventh
21 sheet back, right, in Exhibit 62.

22 CHAIRMAN PATCH: When you say
23 "back", you mean from the --

24 THE WITNESS: From the front, yes.

[Witness: Petzinger]

1 It's unnumbered, unfortunately. But it looks like this
2 (SHOWING DOCUMENT). It's labeled "New Hampshire - Switch
3 Results Filed Versus the Stipulation".

4 CONTINUED BY THE WITNESS:

5 A Okay. If we look at the first line, it's labeled "SCIS
6 Results", now, that is where the issue of the
7 discounting and all that comes into play, as to what
8 inputs you put into SCIS and what outputs you get. So,
9 that is one number. And, I've already talked
10 extensively about that that number, as it stands today,
11 even with the 80/20, you know, discount applied, that
12 that number still is too high, compared to the publicly
13 available switch price information that I did include
14 in my testimony from other RBOCs around the country.
15 I've also, I think, talked about the fact that this
16 number is too high because the -- Dr. Gabel's data
17 doesn't support it, nor does the contract data. And,
18 it certainly doesn't represent the cost,
19 forward-looking cost of new switches. Now, just so you
20 know, that SCIS result on a per line basis is the
21 number at the bottom of the page, which is the "cost
22 per line material". So, we've already talked about why
23 I believe that number is too high.

24 The next thing I'd like to talk about is the

[Witness: Petzinger]

1 installation factor, which is third item down, at
2 "1.5211", or approximately a 52 percent installation
3 factor. Now, in my testimony, I had shown a comparison
4 of other factors for installation, from Bell Atlantic
5 South states, it was on Page 13 of my testimony. Now,
6 Mr. Baker did mention, and he is correct, that the Bell
7 Atlantic South states represent what they call "local
8 engineering and installation factors", and they
9 averaged about ten percent overall and 11 percent just
10 for the Bell Atlantic South states, because I did have
11 some other companies in there. Whatever was available
12 I included. These are not a selective listing. This
13 was everything that was filed in an Open Network
14 Architecture filing at the FCC in approximately 1992.
15 So, those are the engineering and installation costs
16 incurred by the local telephone company, averaging
17 about ten percent. Now, the 52 percent --

18 BY CHAIRMAN PATCH:

19 Q You've told us that '92 figures are old, --

20 A Yes.

21 Q -- in terms of switch costs. Are '92 figures old, in
22 terms of installation costs, too?

23 A Yes. I still think that it serves as a handy
24 benchmark. I'm not saying that those are the right

[Witness: Petzinger]

1 numbers, though.

2 Q Which way have they gone since then?

3 A There's puts and takes on that. Bell Atlantic would
4 tell you, "well, their installation costs are going up
5 because of their labor costs are going up." But I
6 would also say that some of that is offset by
7 productivity gains that they should be experiencing,
8 as, you know, things become easier. I know that the
9 vendor has implemented new processes within the switch
10 to make cutovers easier, faster, less problematic, both
11 from a service perspective and also from a time to
12 installation perspective.

13 BY CMSR. GEIGER:

14 Q And, the ten percent figure that you just gave us
15 relates, did you say, to the southern states within
16 Bell Atlantic or is that BellSouth?

17 A No. Did I say "BellSouth"? I'm sorry. Southern
18 states within Bell Atlantic.

19 CMSR. GEIGER: Thank you.

20 THE WITNESS: Yes. And, the states
21 are identified there by name, in my testimony.

22 CONTINUED BY THE WITNESS:

23 A Now, the 52 percent factor, however, here, includes
24 both the local telephone company installation and

[Witness: Petzinger]

1 engineering and vendor engineering and installation.
2 At the time I filed my testimony, I did not have any
3 information to be able to break those things down so
4 that I could do a direct one-to-one comparison. But,
5 from my experience, I knew that the -- the additional
6 engineering and installation that would normally be
7 provided by the vendor anywhere else in the country,
8 but done in-house here in the Bell Atlantic North
9 territories, is that that would not explain the
10 difference. But, at the time I filed my testimony, I
11 didn't have the information. So, now, what I did was I
12 went back and I said "okay, I'm going to run SCIS." It
13 has a toggle switch, without changing anything that
14 Bell Atlantic provided to me in the SCIS electronic
15 version. I changed no inputs, no data, nothing. I
16 simply took it as provided. There's a simple toggle
17 switch, and it says "Run material only", which is the
18 way NYNEX, or excuse me, Bell Atlantic ran it, or you
19 can run it with including vendor engineering and
20 installation, it's called "EF&I run". I simply hit
21 that toggle and recalculated everything that they
22 provided me. That shows that there was an 8.4 percent
23 cost that SCIS would calculate for vendor engineering
24 and installation. So, if I simply round up to ten

[Witness: Petzinger]

1 percent, and if I add that ten percent for the vendor
2 engineering and installation to the ten percent in my
3 testimony that shows the local telephone company
4 engineering installation, the total amount becomes 20
5 percent. That is a direct comparison to the 52 percent
6 that they are attempting to use in this proceeding.

7 And, it just shows that it's just severely, severely
8 overstated.

9 Now, I'm not saying that they don't actually
10 have incurred that cost in the past. What I'm saying
11 is that, if that is not a cost-efficient, effective way
12 to run a business, then, on a forward-looking basis,
13 the new entrant shouldn't have to pay for that
14 inefficiency.

15 In addition, the fact that Bell Atlantic, in
16 the southern -- the pre-merger Bell Atlantic states all
17 do engineering and installation from the vendor. And,
18 if you assume that going forward the companies are
19 going to attempt to do best in class for identifying
20 how to run their business on an integrated basis in the
21 future, I would think they're going to go for the most
22 cost-efficient way of doing it. And, that would make
23 sense. There's no reason to continue to pay more than
24 necessary for that process.

[Witness: Petzinger]

1 The next thing I'm going to talk about is the
2 right to use fees, which are listed here. And, they
3 are substantial. When you convert those totals to a
4 simple per line number, it comes out to be about \$38
5 per line for the software that they have included as
6 capital investment in this study. Now, we did request
7 data on the accounting documentation of precisely how
8 all of these dollars were booked to the accounts, and
9 we have not received it. We did have another data
10 request where we asked for an example of how one
11 switch's RT fees are booked. We did receive that, for
12 some inexplicable reason we were provided information
13 about a New York State switch, and it had no numbers of
14 lines associated with it, so we couldn't really
15 determine how that equated to anything here.

16 I still believe, as I mentioned in my -- in
17 my testimony, and as I think was shown yesterday in
18 some of the discussion, that double counting of right
19 to use fees has probably taken place here between the
20 expense and the capitalization accounts. If it was
21 included in the expense accounts, which Bell Atlantic
22 has said that they have not adjusted in any way, and
23 then also included those here as capital dollars in the
24 cost study, there will be a double count. Now, many of

[Witness: Petzinger]

1 these dollars, we did receive from Bell Atlantic a
2 listing of what the dollars are. Again, we did not
3 receive the accounting information, but we did receive
4 a listing of what represents these right to use fees,
5 and many of them are associated with buyouts. And,
6 yesterday, I think you heard that many of the buyouts
7 are definitely expensed.

8 Okay. I'd just like to quickly draw your
9 attention to the ISDN port rates. They are completely
10 out of proportion to the other port rates. When I -- I
11 think the first reason is, again, a discounting problem
12 within SCIS, the wrong discount was used. There is
13 often a separate ISDN specific discount, or contract
14 even, an entire contract that governs ISDN purchases,
15 because the vendors have been aggressively trying to
16 incent deployment of ISDN. And, I did not see that
17 kind of a discount reflected in these studies. None
18 were near the order of magnitude I would have expected.

19 The other thing is, the inputs for SCIS for
20 the ISDN traffic patterns did not appear reasonable to
21 me, and they used surrogate data. They sort of assumed
22 that a little bit of ISDN data represented all of it.
23 And, I thought that the inputs were inappropriate.
24 And, then, to use them across all of -- as surrogates

[Witness: Petzinger]

1 for all of the ISDN inputs just was not -- was not
2 correct. It caused absolute massive amounts of spare
3 capacity to be calculated and included in the cost
4 here. And, that means, as new ISDN customers come on
5 board, that double recovery will occur, because they're
6 charging us here, in the form of spare capacity, and,
7 now, when those ISDN customers do come on board to use
8 up that spare capacity, those ISDN customers will also
9 be paying for that same equipment. So, it will end up
10 resulting in double counting, or "double recovery", let
11 me put it that way.

12 Just as a rule of thumb, typically, when ISDN
13 first came out, it was touted as being something that
14 would -- should be less than twice or two home lines,
15 otherwise it would never sell. And, the rule of thumb
16 was about one and a half times the cost of a typical
17 analog POTS line. Instead, what we're seeing here is
18 20 times higher. And, I would say a reasonable range
19 should only be in the two to three times level at most.

20 Now, the only remaining things I'd like to
21 talk about is the fact that that very large fixed cost
22 of a switch, that 30 percent of the investment is
23 fixed, it does not vary with respect to usage, and yet
24 that is being recovered on a minute of use basis. And,

[Witness: Petzinger]

1 it's being recovered over current minutes. That means
2 that, as the minutes grow in future years, but that
3 fixed cost remains the same, they will begin to
4 overrecover that fixed cost with each additional minute
5 that they receive in the future in traffic. And,
6 that's inappropriate.

7 In addition, today, the reason you incur that
8 fixed cost is because of a port exhaust. If you
9 exhaust the number of ports on a switch, the number of
10 lines, for example, that will require you to place a
11 second switch in that -- in that wire center. That is
12 what causes you to incur an additional investment.
13 Minutes do not exhaust a switch any longer. That's an
14 historical perspective and it's no longer true.

15 And, lastly, the electronic version of SCIS
16 that was provided by Bell Atlantic, when I first
17 received it, I opened up the model. I simply looked at
18 the report. I touched nothing. I just viewed the
19 stored reports that are in there. Those results
20 matched none of the results that have been provided in
21 the filing. I then thought "well, maybe it needed to
22 be recalculated." Again, I touched no inputs, I pushed
23 the recalculation button. The number was lower than
24 what the number was that they provided me, in the first

[Witness: Petzinger]

1 version or the initial report that was shown. In fact,
2 if you refer back to this Exhibit 62, the seventh
3 sheet, showing the switch results filed versus the
4 stipulation, that bottom line, that "SCIS cost per line
5 material" is shown as "163". The data I received in
6 the electronic version, by simply pushing the recalc
7 button showed "146".

8 Now, I'd like to reemphasize, though, I do
9 not think "146" is the right number, because that is
10 material only cost, and represents this weighting of
11 the 80 percent/20 percent of new and growth discounts.
12 Again, I think the 146 should be the fully installed
13 cost, not the -- not just the material. But it just
14 shows that the bottom line is we're not sure how the
15 numbers in the workpapers were generated, because the
16 documentation we've received to date does not validate
17 them or substantiate them.

18 So, in summary, we do recognize a huge
19 reduction is taking place in this stimulated switch
20 rate, compared to the initial filing. But a huge
21 reduction does not make them correct, nor does it make
22 them cost-based, which is a requirement, UNE rates must
23 be cost-based. I mean, if a car salesman's first price
24 for a ten year old Chevy is \$50,000, reducing it to

[Witness: Petzinger]

1 \$25,000 does not make it correct. And, yet, that is
2 exactly what's happening here. And, should this
3 Commission reject the preferred HAI model, in favor of
4 the stipulation, then there are numerous modifications
5 that would be necessary to make it cost-based. The
6 nontraffic sensitive first cost of a switch should be
7 allocated to and recovered from ports, not the minute
8 of use.

9 Forward-looking Integrated Digital Loop
10 Carrier technology, which is the Bellcore compliant
11 GR303, also known as "Next Generation DLC", is
12 currently available, and is being deployed today. That
13 should be included in the cost study for the digital
14 line ports. They have substantially lower costs than
15 some of the Digital Loop Carrier that they have
16 included in the switch port study. The engineering and
17 installation factor must be reduced to realistic
18 levels. And, most importantly, the discount inputs to
19 SCIS should reflect the new switch prices, they must
20 reflect the most cost-effective, forward-looking cost
21 of switching, and certainly should not exceed Dr.
22 Gabel's fully installed cost of \$146 too \$156 per line.

23 And, that concludes my summary. Thank you.

24 MR. SALINGER: If the Commissioners

[Witness: Petzinger]

1 have no further questions, then Ms. Petzinger is available
2 for cross-examination.

3 CHAIRMAN PATCH: Okay. Ms.
4 Jackson.

5 MS. JACKSON: Commissioners, at
6 this point, because the summary involved a lot of new
7 material, staff would request we take a recess for at least
8 15 minutes, so that staff can consult with each other and
9 decide how to proceed.

10 CHAIRMAN PATCH: Okay. We'll take
11 a fifteen minute recess.

12 (Whereupon a recess was taken at
13 9:55 a.m. and reconvened at 10:19
14 a.m.)

15 MR. DEL VECCHIO: Good morning, Ms.
16 Petzinger.

17 THE WITNESS: Good morning.

18 CROSS-EXAMINATION

19 BY MR. DEL VECCHIO:

20 Q Why don't we start by having you explain to me your
21 notion of what a TELRIC method should employ. Is it
22 your testimony that pricing should be forward-looking?

23 A Well, I'm certainly not an economist, but I can speak
24 from my understanding of how you implement TELRIC

[Witness: Petzinger]

1 principles into the cost study. And, yes, I would say
2 it should be definitely forward-looking.

3 Q I see. So, you're not an economist?

4 A No.

5 Q And, you're not an engineer?

6 A No.

7 Q And, your background was in the area of political
8 science, is that correct?

9 A Yes. My undergraduate degree was a Political Science
10 major. That's good for everything, I think, though.

11 Q In fact, I was a Political Science major as well.

12 CMSR. GEIGER: Well, let's all hold
13 our hands up.

14 (Laughter.)

15 BY MR. DEL VECCHIO:

16 Q But, unfortunately, I'm not an engineer, nor am I an
17 economist, as I take you are not as well. With respect
18 to the forward-looking currently available technology
19 approach, which I believe you espoused is the
20 appropriate way to proceed with a TELRIC study, do you
21 agree that it would be appropriate in the TELRIC method
22 to use the SCIS model?

23 A In this proceeding, SCIS can be forced to produce
24 numbers. SCIS was not built to generate unbundled

[Witness: Petzinger]

1 network elements. It can be manipulated to do so. It
2 is not an ideal use of the model.

3 Q It can be used to produce forward-looking costs, is
4 that correct?

5 A Yes. I would say that it can generate switch
6 investment that's forward-looking, that's right.

7 Q And, that result would be TELRIC compliant, is that
8 correct?

9 A I'm not sure. The outputs of SCIS at that point don't
10 represent an "element" as defined in this proceeding,
11 or at least the element -- rate elements of port and
12 usage, SCIS does not generate the numbers in that
13 format. So, I can't say it's pure TELRIC compliant,
14 because other things have to be done to --

15 Q Sure. I'm sorry.

16 A -- to put them in the right format.

17 Q I understand that. But I'm not talking about rate
18 design right now, Ms. Petzinger. I'm talking about the
19 switch investment producing a forward-looking cost
20 number.

21 A Yes.

22 Q Is it your testimony before the Commission that SCIS
23 will produce, can produce a TELRIC compliant switch
24 investment number?

[Witness: Petzinger]

1 A I agree it produces a -- it can produce, depending on
2 the inputs, a forward-looking switching investment.
3 I'm not sure whether the numbers that come out of SCIS
4 as is are TELRIC compliant.

5 Q The numbers, and that's because you have to then assign
6 those costs to various rate design buckets, is that
7 correct?

8 A Right. But, I mean, in this case, my understanding,
9 those rate design buckets are the definition of the
10 element. Now, "element" is part of the "TELRIC"
11 definition. So, if it can't do -- if it doesn't come
12 out with the elements directly, then I'm not sure it's
13 TELRIC compliant. I mean, we may be just arguing over
14 terminology.

15 Q Right. I'm only --

16 A And, I do agree with you that it's forward-looking, and
17 that it can do long run costing.

18 Q Okay. Thank you. And, in fact, that would reflect the
19 SCIS results component, which I believe you spoke about
20 earlier on the page from Exhibit 62, and once we took
21 that number and adjusted it with various factors, such
22 as power, we would then turn to a rate design method,
23 such as Attachment 1 to the stipulation, and would
24 produce a rate --

[Witness: Petzinger]

1 A Okay. You're way ahead of me now.

2 Q Okay.

3 A I need to go back to Exhibit 62, which is?

4 Q Sixty-two you were reading earlier.

5 A Oh, I'm sorry.

6 Q Identifying various columns. Starting with SCIS
7 results.

8 A Right.

9 Q Are you with me?

10 A In a second here. Yes. Okay, I got 62.

11 Q And, the SCIS results above, assuming the correct
12 inputs, can produce, I believe you testified, a
13 forward-looking, TELRIC compliant investment figure,
14 which then, of course, must be bucketed to various rate
15 design components or elements, correct?

16 A Well, again, I want to not necessarily agree with you.
17 You're asking me "is that number TELRIC compliant?"
18 And, I don't believe that that number represents any
19 element that we're talking about. It is -- It can be,
20 depending on inputs, and I'm not saying this number is,
21 because it definitely is not, SCIS can produce
22 forward-looking long run costs.

23 Q Okay. And, then, one would take those costs and make
24 adjustments for things like power, correct?

[Witness: Petzinger]

1 A Yes.

2 Q And RTU fees?

3 A Yes.

4 Q And similar such adjustments, and then we would seek to
5 bucket those to various elements, is that correct?

6 A Yes, that's right.

7 Q And, in fact, did the parties, that is staff and Bell
8 Atlantic, seek to bucket, if you will, various costs in
9 Attachment 1 of the stipulation, which has been marked
10 for identification as Exhibit 61, I believe? Did they
11 seek to do that?

12 A I don't have that in front of me, but they're certainly
13 attempting to generate prices for switch elements.

14 Q Yes.

15 A The various elements that have been defined here, yes.

16 Q For the purpose of establishing unbundled network
17 element prices, correct?

18 A That was my understanding.

19 Q Now, getting back to the issue of TELRIC pricing, some
20 of your criticisms in your direct testimony, I take it,
21 were based on the notion that some of the costs that
22 Bell Atlantic identified were not forward-looking, is
23 that correct?

24 A Yes, that's correct.

[Witness: Petzinger]

1 Q And, in fact, in one case I believe you claimed that
2 the switch characteristics were not forward-looking, is
3 that right?

4 A You'll have to be more specific, I'm sorry.

5 Q Well, did you initially, I believe, testify, in your
6 prefiled testimony at least, that the Company modeled
7 three hypothetical switches for purposes of determining
8 switch investment? And, I know that you've since
9 revised that on the stand, is that correct?

10 A Yes, I took that out because, as Mr. Baker stated the
11 day before, that the information that was filed, one
12 could reasonably conclude that only three switches were
13 -- of data were entered. And, after I received the
14 SCIS model, it became evident that more than three
15 switches were done. And, so, I --

16 Q And, in fact, didn't -- I'm sorry.

17 A -- and that's why I retracted that information from my
18 testimony yesterday.

19 Q In fact, didn't Mr. Baker say that in his surrebuttal
20 testimony as well?

21 A Yes, I believe he did.

22 Q And the reason for identifying actual switching
23 information, why is that?

24 A What information are you referring to?

[Witness: Petzinger]

1 Q Well, why are you criticizing, initially at least, Mr.
2 Baker?

3 A Well, for the fact that they didn't include more than
4 three switches?

5 Q Yes.

6 A Because you want to be able to identify the cost
7 associated with current demand. I mean, that is one of
8 the issues here. And, the inputs to SCIS are supposed
9 to reflect current demand. My first impression of only
10 three switches' worth of inputs would not necessarily
11 be able to represent all of New Hampshire's demand.

12 Q Okay. So, what you're trying to determine then is the
13 actual line counts, for example, among other things?

14 A Well, you would want to be able to determine line
15 counts per switch.

16 Q I agree.

17 A Or the minute of use rates or the number of trunks for
18 the number of lines being served. There's many, many
19 inputs into SCIS --

20 Q Sure.

21 A -- about traffic patterns for each individual switch.

22 Q So, what you need to look at, in order to produce a
23 reliable SCIS result, which would be forward-looking,
24 is to have, for example, actual lines per switch,

[Witness: Petzinger]

1 correct?

2 A Yes, that's right.

3 Q And actual trunks per switch?

4 A That's correct. Well, let me back up. That data,
5 you're saying "actual", assuming that it was collected
6 very recently and reflects, you know, what is currently
7 happening in the network.

8 Q Sure. What happened in the network, in fact?

9 A No. I was saying the idea is it's supposed to reflect
10 current demand.

11 Q Current demand, though, based on what actually
12 happened, isn't that correct? Or should we have made
13 up the numbers?

14 A No. I'm saying, whatever the current demand is should
15 be what is input. If you're trying to capture the cost
16 of the network for -- or a network to serve current
17 demand, you better capture current demand. That's all
18 I'm saying.

19 Q But those are actual numbers, aren't they? Or are they
20 hypothetical numbers?

21 A As long as they're as of today. Now, there are some
22 hypotheticals in the inputs that would have to be made.
23 For example, if you have analog trunking in the
24 network, that would not be appropriate for a

[Witness: Petzinger]

1 forward-looking study. That's a very simple one.

2 Q All right. I understand. But you struck your
3 testimony yesterday, I believe, in part, because you
4 now understand that Bell Atlantic did use actual
5 numbers, and those numbers I believe were dated as of
6 December of '97, is that correct?

7 A I don't remember the date. I didn't strike it because
8 they didn't use actual numbers.

9 Q You struck it because they, in fact, did use actual
10 numbers, for all switches, which you thought they had
11 not, isn't that correct?

12 A No, I'd like to not agree with the wording that they
13 "used actual numbers". I'm just -- The reason I struck
14 that was I thought they were only trying to represent
15 current demand based on three switches, and that turned
16 out not to be true, so I modified my testimony
17 appropriately.

18 Q And, the fact that they used current demand for all
19 switches, as of December of 1978, was sufficient for
20 you to have a comfort level -- I'm sorry, '97, thank
21 you. Was sufficient for you to have a comfort level
22 that, at least in this part, the SCIS model could
23 produce a reliable result, correct?

24 A No, I again object to the way you're characterizing

[Witness: Petzinger]

1 that. What I said was that testimony that said that
2 "they only reflected three switches' worth of data" was
3 no -- I identified was no longer correct. They did use
4 more switch data. That's all I was saying.

5 Q So, --

6 A You're drawing much more into it than I ever said.

7 Q I see. So, you still have criticisms with respect to
8 that particular element then?

9 A Which element is that, sir?

10 Q The issue of whether or not they have used
11 forward-looking traffic characteristics in those
12 switches. Because I believe that was the purpose of
13 your testimony on that part, was it not?

14 A No. Again, --

15 MR. SALINGER: Objection. That's a
16 compound question. If the Witness could have one question
17 at a time.

18 MR. DEL VECCHIO: If the Witness
19 doesn't understand the question, I could repeat it.

20 THE WITNESS: Could you break it up
21 into two?

22 BY MR. DEL VECCHIO:

23 Q I want to understand whether or not you were objecting
24 to something in addition to your objection that Bell

[Witness: Petzinger]

1 Atlantic allegedly used three hypothetical switches,
2 with respect to that particular section of your
3 testimony?

4 A As that was the only data I had in front of me at that
5 time, for those three switches, I had no knowledge
6 whatsoever of whether the data was valid or not. And,
7 yes, I do have additional problems with some of the
8 input data, as I mentioned in my summary, regarding
9 ISDN, regarding the lack of line ports that reflect
10 forward-looking Integrated Digital Loop Carrier, and
11 number of other things.

12 Q Okay. Let's see if we can wrap this up, though. With
13 respect to the issue of whether Bell Atlantic used
14 hypothetical data for switches in New Hampshire, versus
15 the use of actual data, you are now satisfied that Bell
16 Atlantic used actual data, and that was the correct
17 thing to do in this instance, isn't that the case?

18 A No. I really don't want to belabor this. The issue
19 is, I am not saying that the data that they used for
20 the inputs are actual. I have no way to verify that, I
21 have no knowledge of whether they're actual data. Some
22 of the inputs appear reasonable to me, not all of them.
23 The only difference that I was saying was that "do
24 three switches represent all switches in New

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[Witness: Petzinger]

1 Hampshire?" And, the answer to that was "no". I still
2 have problems with some of the input data.

3 Q I understand that. But you understand that the data
4 used was not hypothetical data, is that correct?

5 A Some -- The ISDN data, some of which it may have been
6 collected for a number of switches, was then used as
7 surrogate data for other switches. I'm not sure
8 whether that falls into the realm of hypothetical.

9 And, to be honest, I have no knowledge whatsoever of
10 whether any of the data entered into those models were
11 hypothetical or not. I don't have any of the
12 documentation underlying those inputs. I cannot
13 validate that.

14 Q Well, let me ask you it this way then, before we move
15 on. To the extent that the Company used actual
16 switching characteristics for each of the switches in
17 New Hampshire, as of December of '97, that would have
18 been correct, correct?

19 A I'm not sure what you're asking me. You want me to
20 agree with --

21 Q With what I just said.

22 A With -- based on your testifying that they were actual
23 data, --

24 Q No, that's not what I --

[Witness: Petzinger]

1 A -- I should --

2 Q That's not what I asked you, ma'am.

3 A I'm sorry, could you repeat the question.

4 MR. DEL VECCHIO: Could you please
5 read the question back.

6 (Whereupon the Court Reporter read
7 back the question.)

8 BY THE WITNESS:

9 A I'm sorry, I still don't know -- I'm not sure what
10 you're asking me.

11 BY MR. DEL VECCHIO:

12 Q I asked you whether, if they had used current -- I'm
13 sorry, actual data, as of December of '97, then that
14 would alleviate your concern that they used
15 hypothetical data?

16 A No, because, as I said, the ISDN data that was used --

17 Q I'm not asking specifically what they did. I'm asking
18 you, to the extent that they did?

19 A No, I still can't agree. Because, if they used analog
20 trunking, for example, as inputs, that would be
21 incorrect, even if they actually exist in your network.

22 Q Okay. Well, let me ask you this then. Given that time
23 always passes from data gathering to the point of
24 hearings in any proceeding, isn't it correct that data

[Witness: Petzinger]

1 is necessarily historical?

2 A Yes. I would say that, as long as it's within some
3 reasonable time frame, though.

4 Q Now, I believe you also claimed today, and earlier in
5 your testimony, that the Company used the wrong
6 discount when entering inputs into the SCIS model, is
7 that correct?

8 A That's correct.

9 Q And, the right discount is what, without identifying
10 any specific number?

11 A I believe it should be what most accurately reflects
12 what would be the forward-looking cost of switching
13 that is generally available in the industry for new
14 switches.

15 Q And, that would be determined by looking to see what
16 most recently the telephone company actually paid, is
17 that correct?

18 A Not necessarily.

19 Q Not necessarily.

20 A Well, I mean, was that a general question?

21 Q Yes.

22 A No. I would say "not necessarily".

23 Q Okay. I see. So, one wouldn't look to see, one
24 wouldn't look to what the Company actually paid to

[Witness: Petzinger]

1 determine what would be a forward-looking cost, with
2 respect to discounts?

3 A There are many instances where a company may not be
4 actively purchasing switching, in which case they may
5 not have any, what I would consider, competitive
6 contracts available. They will -- Some companies don't
7 even use contracts that much. They will go through a
8 process called a "competitive bid process", even if
9 they have a contract in place. That does not
10 necessarily explain what they will actually pay,
11 because they will go to the vendors and say "I'm going
12 to put in these new switches here in, you know, Town A,
13 Town B, Town C. Give me a quote." And, then, they
14 will go to the other vendor and say "give me a quote
15 for these three". And, then, they look, they compare,
16 and then award the bid. So, there's other processes by
17 which switching can be done, besides contracts that are
18 sort of on the books or off the shelf.

19 Q Let's address then your comments to Bell Atlantic. Is
20 it your testimony that the discount that should have
21 been used in the SCIS model should have reflected the
22 actual prices in Bell Atlantic's negotiated agreements?

23 A Again, not necessarily. The agreements that we're
24 looking at are fairly old. And, the Bell

[Witness: Petzinger]

1 Atlantic/NYNEX merger has taken place. At least the
2 contracts that were used to justify the filings, both,
3 you know, before and after the stipulation. They're
4 fairly old contracts. They -- And, as I've said, there
5 were other contracts that were provided that indicate
6 substantially different ways in which the prices will
7 end up being lower than what is stated in just the pure
8 discount form listed in the contracts.

9 Q So, then, one should look to the most recent negotiated
10 contracts involving Bell Atlantic to determine what the
11 appropriate actual discount is, for purposes of running
12 the SCIS model?

13 A I would say that absolutely must be taken into account,
14 but other things need to be taken into consideration as
15 well.

16 Q And, those other things are?

17 A Things like the merger, how it will impact the buying
18 power of this entity now that will literally be
19 purchasing twice as many switches. They have twice as
20 many switches than either one of the old companies had
21 independently. So, they certainly have much heavier
22 buying power.

23 Q And, assuming that the --

24 A That might be one reason.

[Witness: Petzinger]

1 Q I'm sorry.

2 A There are others, I'm sure.

3 Q Assuming that the Commission concludes that the merger
4 savings are offset by future expenses, would it be fair
5 for the Commission to look then, in your view, to the
6 actual prices negotiated in recent contracts?

7 A I don't think one has anything to do with the other.

8 Q Okay. So, let me direct your attention to Page 14 of
9 your testimony then, Ms. Petzinger. Are you with me?

10 A Yes, sir.

11 Q On the bottom of the page, and this is not numbered,
12 Mr. Chairman, you've stated, in answer to the last
13 question on the page, "the SCIS/MO and SCIS/IN models
14 contain vendor list prices and require the user to
15 enter a discount for customized and switching
16 investments to reflect the actual prices paid by the
17 local telephone company, according to locally
18 negotiated contracts and/or agreements."

19 A Okay.

20 Q Did I read that correctly?

21 A Yes, that's right.

22 Q And, continuing with that paragraph, you state
23 "Therefore, if the discount factors do not reflect the
24 actual price in Bell Atlantic's negotiated agreements

[Witness: Petzinger]

1 with switching vendors, the results produced by SCIS
2 will misstate Bell Atlantic switching investments."
3 Did I read that correctly?

4 A Yes, you did.

5 Q Thank you.

6 A And, what I'd like to explain a little bit more about
7 is that --

8 Q Well, let me ask you a question first, before you
9 explain, since I didn't have a question. Is that
10 testimony accurate or inaccurate?

11 A I believe it is accurate, based on my definition of
12 "actual". "Actual", in many of the telephone
13 companies, the incumbent telephone companies, use
14 "actual" sort of as a synonym for "historical" or
15 "embedded". My definition and use of the term here
16 would mean "going forward".

17 Q Now, I believe you also state, do you not, that TELRIC
18 costs should reflect the costs that an efficient new
19 entrant would face?

20 A I'm sorry, could you repeat that? I temporarily
21 blanked out, I'm sorry.

22 Q It's your testimony, is it not, that TELRIC costs
23 should reflect the costs that an efficient new entrant
24 would face, is that correct?

{DE 97-171} [Track 2 - Day III] (9-03-98)

[Witness: Petzinger]

1 A Yes, that's my understanding.

2 Q And, it's also your view, I take it, that inputs used
3 in the SCIS model should be adjusted, in your view, to
4 reflect forward-looking prices that Bell Atlantic can
5 expect to incur, is that correct?

6 A Yes, for new switches, that's correct.

7 Q Is it for anything else or does it only apply to new
8 switches?

9 A No, I think that, because we're talking about the
10 forward-looking costs and -- of Bell Atlantic as the
11 baseline for the process, and that it is attempting to
12 mimic the price or the cost to the new entrant, that
13 the new entrant would presumably face, if they were
14 going into the market buying a new switch, it should be
15 similar. So, I think you have to take the two
16 together, in order to get the right number.

17 Q It's all costs, though, that Bell Atlantic can expect
18 to incur in providing the unbundled network element, is
19 that fair?

20 A No, I don't agree with that. Because it has to be not
21 just forward-looking, but it has to be cost-efficient.
22 I don't believe in reimbursing Bell Atlantic for
23 inefficient practices that would not exist in a
24 competitive marketplace, if this were a competitive

[Witness: Petzinger]

1 marketplace. I mean, that's what we're trying to get
2 to here. We're trying to, through a difficult process,
3 but we're trying to make the regulatory process sort
4 of, as much as possible, make this look like a
5 competitive environment.

6 Q Fair enough. But the objective, I take it, is to
7 attempt to determine, to the extent reasonably
8 possible, the costs that Bell Atlantic will likely face
9 and can expect to incur, considering that you're
10 looking at forward-looking prices?

11 MR. SALINGER: Objection. Asked
12 and answered.

13 MR. DEL VECCHIO: I'm not certain
14 that I have and I've heard the answer to that exactly.

15 CHAIRMAN PATCH: Yes. I'll allow
16 the question.

17 BY THE WITNESS:

18 A No, I don't agree at all. For example, the
19 installation factor is a perfect example of what I
20 don't agree with. Bell Atlantic may say they are going
21 to continue to use the in-house expensive process.
22 And, I'm not sure why it is so much more expensive than
23 anyone else in the country, but I don't believe that
24 that is an appropriate forward-looking, efficient cost

[Witness: Petzinger]

1 that should be, you know, moved over for the incumbent
2 LECs to have to pay for.

3 BY MR. DEL VECCHIO:

4 Q So, in your view, then, the fact that Bell Atlantic
5 will continue to incur those expenses, given its
6 workforce, is irrelevant?

7 A I think that has to be the starting place, but where
8 those practices are deemed to be totally inefficient in
9 what would be a competitive marketplace, then they
10 should be modified to be forward-looking, given a
11 competitive marketplace.

12 Q Apart from the fact that you've referenced some default
13 installation factors in the SCIS model, do have
14 specific evidence in New Hampshire, based on the work
15 practices of New Hampshire technicians, that those
16 technicians are inefficient in installing switches, Ms.
17 Petzinger?

18 A No. We've received no information or documentation on
19 exactly the process. I understood they were not New
20 Hampshire technicians. I thought they were Bell
21 Atlantic North wide technicians, based on the numbers,
22 I think 500 and some people are dedicated to doing
23 this, as was stated the day before.

24 Q Now, directing your attention to Page 24 of your

[Witness: Petzinger]

1 testimony. Are you with me?

2 A I'm sorry. Page what?

3 Q Twenty-four.

4 A Yes.

5 Q It's the first answer in the "Summary", where you state

6 "The most grievous error is BA's inputs for switch

7 discounts. BA's inputs must be adjusted so that SCIS

8 calculates average switch investment per line that is

9 comparable to other large RBOCs and reflects the

10 forward-looking prices that BA can expect to incur for

11 replacement switches." Did I read that correctly?

12 A Yes, that's right.

13 Q Now, this morning you were testifying at some length

14 about information that was not contained in your direct

15 testimony, isn't that correct?

16 A I discussed the stipulation, which was not.

17 Q You discussed more than the stipulation, did you not?

18 A Can you point me to something specific?

19 Q Oh, I think we'll get to some specifics in a moment.

20 Why don't we start with an assertion you made that you

21 cannot, and I may have misunderstood you, run SCIS

22 using the melded discount, is that correct?

23 A Yes. I think that's an inappropriate use of SCIS.

24 Q I see. So, you're saying it's "an inappropriate use",

{DE 97-171} [Track 2 - Day III] (9-03-98)

[Witness: Petzinger]

1 you're not saying "you can't run SCIS with a melded
2 discount", is that correct?

3 A Oh, the model will calculate, that's correct, but it
4 just won't produce reasonable results.

5 Q I see. So, you're claiming then that it should be the
6 complete new discount, and there should be no growth
7 factor reflected at all, and that's what you mean when
8 you say that "you can't do that", which I think were
9 your words exactly, correct?

10 A Well, there's two pieces to that. One is, yes, I
11 believe that the new switch price is appropriate, given
12 the TELRIC cost methodology that all the parties have
13 agreed to here. But, in addition, the reason I said
14 "you can't do that" is because you're violating some
15 methodology that is inherent in SCIS. First of all,
16 the fundamental principle that you're buying a brand
17 new switch, at today's prices, with today's equipment.
18 SCIS cannot do growth equipment, and Mr. Baker stated
19 they didn't try to. The only place they have done it
20 is in this sort of unique discounting process that
21 they're doing, that only affects, and might I add,
22 increases the prices, by using growth pricing. But the
23 real reason I said "you can't do that", even more
24 fundamental in violating the general construct of SCIS,

[Witness: Petzinger]

1 is that that melding weighting is now being applied to
2 30 percent of the investment that is known as the fixed
3 cost of the switch. That's the cost that you incur
4 when you first buy the switch. Under no circumstances
5 should that ever receive a melded discount. I don't
6 care what definition or what -- or what melding should
7 this Commission even decide to agree to any melded
8 discount, which I disagree with. If it does, then SCIS
9 has to be manipulated and run multiple times to make
10 sure that the getting started cost never receives the
11 melded discount, that the getting started cost always
12 receives a new switch count.

13 Q And, I take it that boils down to, fundamentally --
14 you're disagreeing fundamentally, which would be any
15 discount associated with growth at all? You understand
16 what Mr. Baker's position is, do you not?

17 A Yes, I understand his position. However, first of all,
18 we are trying to cost out new switches. Second of all,
19 growth equipment was not included anywhere in this cost
20 study. The only place they're attempting to include
21 the concept of growth is in the pricing, in order to
22 increase the prices. I just don't think that's
23 appropriate. You can't do -- you can't selectively
24 decide to include the impacts of growth in just one

[Witness: Petzinger]

1 area. Should you decide to do a life cycle analysis,
2 taking into account the initial cost and all of the
3 growth over the life of the switch, then you should
4 have had ten years worth of demand in that cost study.
5 And that fixed getting started cost should have been
6 divided over the ultimate demand, not just current
7 demand. So, you can't selectively choose where to
8 include growth and where to exclude it. It's
9 inappropriate to include it here, because it
10 opportunely increases the cost.

11 Q I see. So, it's your testimony then that the
12 utilization factors that have been used in these
13 studies don't reflect growth?

14 A Based on my analysis of the fill factors here, I would
15 say they certainly do not allow for a lifetime of
16 growth in that switch.

17 Q A "lifetime of growth", but they do reflect growth?

18 A There may be some very small amount. A 95 percent fill
19 factor or a 98 percent fill factor, depending on local
20 conditions, is the general industry standard for what
21 they call "administrative fill".

22 Q And, what about if the studies actually reflect a 70
23 percent growth factor? Would that reflect growth?

24 A Not necessarily. I suspect that what that represents

[Witness: Petzinger]

1 is the lumpiness of the capacities in the way the
2 engineering occurs, is that, in effect, that's a
3 function of the engineering in the components in the
4 way they're purchased. Not necessarily growth.

5 Q And, what about the utilization factors in interoffice
6 facilities, for example? That doesn't reflect growth?

7 A I don't know about the interoffice facility study.

8 Q So, you're not confident to testify as to any
9 utilization factors with respect to any other elements,
10 is that correct?

11 A No. I am not --

12 MR. SALINGER: Objection. Mr.
13 Chairman, this witness is only here to testify on the
14 switching element, and it's not appropriate to be asking her
15 about other elements.

16 MR. DEL VECCHIO: It's appropriate
17 to determine the scope of her knowledge, Mr. Chairman.

18 CHAIRMAN PATCH: Yes. I think it's
19 an appropriate question. She can answer it, and she can
20 tell us what she is here for.

21 CONTINUED BY THE WITNESS:

22 A No, I did not look at any of the other cost studies,
23 only the switching study. That's the only one I'm
24 familiar with.

[Witness: Petzinger]

1 BY MR. DEL VECCHIO:

2 Q At one point in your direct you talked about only one
3 vendor having a certain discount rate. Were you
4 referring to Nortel?

5 A I don't think I said that.

6 Q I know you didn't say "Nortel". I'm asking you whether
7 you did. You specifically said "only one vendor", and
8 I'm trying to understand what you were referring to?

9 A I think you're referring to some testimony that I
10 mentioned where one of -- there is a vendor that has a
11 different structure contract that is a flat rate price
12 per line. I did not say that it was a different
13 discount.

14 Q I see. And, what vendor is that, by the way?

15 A I'm not sure that's -- I was under the impression that
16 was considered proprietary.

17 Q That's fine. Are you familiar with the embedded cost
18 of switching in New Hampshire?

19 A Only as far as Mr. Baker presented yesterday.

20 Q On a per line basis statewide, what's the average?

21 A I only know from that sample that Mr. Baker -- I do not
22 know what the statewide average would be.

23 Q Will you accept subject to check that the statewide
24 average is approximately \$380?

[Witness: Petzinger]

1 MR. SALINGER: Objection, Mr.
2 Chairman. This witness shouldn't be asked to accept that,
3 if she has no familiarity with it, subject to check. She
4 has no capacity to check it.

5 MR. DEL VECCHIO: I don't know
6 about that, Mr. Chairman. We've given them a substantial
7 amount of information. And, I believe that any checking
8 would confirm that number.

9 MR. SALINGER: Mr. Chairman, --

10 CHAIRMAN PATCH: I think it's up to
11 the witness to decide whether she's willing to accept it
12 subject to check, and not her lawyer. She probably won't,
13 now that you've raised it.

14 BY THE WITNESS:

15 A To be honest, I have not seen, I am not aware of
16 embedded cost data provided by Bell Atlantic in this
17 proceeding. If it was there, I'm not aware of it,
18 because that, to me, is a totally irrelevant aspect.
19 So, if it exists, I didn't look at it and don't know if
20 I have it. So, I just don't think I can accept it.

21 BY MR. DEL VECCHIO:

22 Q Have you considered embedded costs in any state?

23 A No.

24 Q Are you familiar with embedded switching costs in any

[Witness: Petzinger]

1 states?

2 A No.

3 Q So, you're only familiar with vendor pricing in the
4 Bell Atlantic states, and that's it, and no embedded
5 costs?

6 A Embedded costs is a -- I don't know how to explain it,
7 but within both the local telephone companies, and when
8 I was at Bellcore building cost models, embedded cost
9 analysis is a totally different -- sometimes it's a
10 different organization, and there is no -- their paths
11 don't meet. They're doing two totally different
12 things. So, forward-looking costs never looks at
13 accounting data. It's just not anything I've ever
14 really been involved with to any great degree.

15 Q Then, you're not generally familiar with accounting
16 data then?

17 A Not -- You'd have to be more specific as to where
18 you're going.

19 Q I'm simply following up on what you just said, ma'am.

20 A No, I'm not, I'm not very -- I took an accounting
21 course in MBA school. But that's about it.

22 Q Well, I think we have another similarity then. But I
23 don't think that that would qualify you, as you would
24 admit, to being an accounting expert, is that correct?

[Witness: Petzinger]

1 A No, absolutely not. I'll stick with forward-looking.

2 Q Now, you were commenting about Exhibit 87, I believe
3 earlier, and stating that old prices were used, and
4 you're referring to '92 prices reflected in Exhibit 76,
5 which AT&T actually, I believe, introduced, is that
6 correct?

7 A Well, I'm sorry, I've lost my -- what is 87? I have
8 76.

9 (Atty. Del Vecchio showing document
10 to the Witness.)

11 THE WITNESS: Oh, okay. I'm sorry,
12 could you repeat the question now?

13 MR. DEL VECCHIO: Sure.

14 BY MR. DEL VECCHIO:

15 Q Exhibit 87 reflects data set forth originally on
16 Exhibit 76, which AT&T introduced, correct?

17 A Yes, that's right.

18 Q And, the old data you're referring to are the most
19 recent dial-with-dial conversions experienced in New
20 Hampshire for the remote switches, is that right? And
21 stand-alones, for that matter?

22 A You're asking me "do these represent the 25 most
23 recent?"

24 Q No. I'm asking you whether, when you characterized the

[Witness: Petzinger]

1 numbers as "old data", you were referring to the most
2 recent conversions in New Hampshire?

3 A I was characterizing the fact that 1992, I don't think
4 in anybody's book, can be considered current. I wasn't
5 necessarily comparing them to anything else at all.

6 Q But they -- you understand, I believe, that these are
7 the most recent conversions, correct, in New Hampshire?

8 A Well, yes. That's what you're telling us, yes.

9 Q And, you have no reason to disbelieve that, do you?

10 A No.

11 Q Now, referring to Exhibit 87, where you were commenting
12 that the old data should actually be less, you
13 understand, do you not, that the data taken from
14 Exhibit 76 was subject to a discount adjustment, to
15 reflect the weighted discount used as an input to the
16 stipulation, is that correct?

17 A I will be honest, that I was reviewing that again this
18 morning, and I don't completely understand. Are you
19 talking about 2(b), where that adjustment was made?

20 Q Correct.

21 A I must admit, I do not completely understand what that
22 was -- what was happening there.

23 Q Fair enough. Now, let's move on to a comment you made
24 about the network that's deployed in New Hampshire, and

[Witness: Petzinger]

1 I would thank you on behalf of our company, I believe
2 you stated that "this is a very efficient deployment of
3 switching equipment", is that correct?

4 A I'm not sure I said "very", but it's definitely --

5 Q I wrote down --

6 A -- a very reasonably efficient.

7 Q And, that's because the host/remote cluster situation,
8 particularly, given the demographics of New Hampshire,
9 make a lot of sense, is that correct?

10 A That's correct.

11 Q And, you don't expect, do you, or have any evidence to
12 support the notion that the Company would likely incur
13 less expense, were it to reconstruct its network, do
14 you?

15 A Not necessarily. But I don't think that's what we're
16 trying to do here anyway. I mean, the idea is,
17 although it's a little bizarre when you first think
18 about it, but we are not necessarily looking at the
19 embedded network. The idea is "what is the
20 forward-looking cost-efficient network?"

21 Q Which, in this case, I think you testified, matches
22 very nicely to the existing Bell Atlantic switching
23 network, is that correct?

24 A Yes. I would say that the New Hampshire network does

[Witness: Petzinger]

1 appear to be cost-effective, given today's. The only
2 thing I did find unusual, which is not part of the
3 host/remote issue, is the limitation to only one switch
4 manufacturer.

5 Q Now, you stated also earlier, I believe, that the Bell
6 Atlantic states in the south, which I believe Mr. Baker
7 also stated, uses vendor installation, correct?

8 A Yes, that's correct.

9 Q And, you also stated, though, that you're not familiar
10 generally with embedded costs. Do you know what the
11 embedded costs are for vendor installation in the Bell
12 Atlantic South states?

13 A No. You're talking about absolute dollars?

14 Q Correct.

15 A No, not at all.

16 Q You also testified, I believe, that you applied a
17 "toggle switch". I must confess the toggle switches I
18 use probably aren't the toggle switches that you used
19 in the SCIS model. But you, in fact, simply replaced
20 the installation factor, when you -- that is you used a
21 default installation factor, when you exercised the
22 toggle switch?

23 A No, not quite.

24 Q Okay.

{DE 97-171} [Track 2 - Day III] (9-03-98)

[Witness: Petzinger]

1 A I can explain what that is. The toggle switch is truly
2 in a Windows environment, the same as the manual toggle
3 switch. You know, you click on one button or the
4 other. One says a "Material Only Run" and one says
5 "Engineering" -- "EF&I", Engineered, Furnished and
6 Installed, in this case, Bell -- local telephone
7 company engineering and installation is not included.
8 That means the vendor's engineering and installation
9 costs. So, I -- you can only choose one or the other,
10 so I clicked on the "Engineering, Furnished and
11 Installed", and then simply recalc'd.

12 Q And, I take it we would agree that the default
13 installation factor does not reflect the actual expense
14 Bell Atlantic will incur next year or the year after or
15 the year after, given its current workforce?

16 A Is this in relation to the things I did in SCIS or are
17 you on a new question? I'm having trouble following
18 the flow.

19 Q It was a new question.

20 A Okay. I am not familiar with Bell Atlantic's labor
21 issues.

22 Q So, you can't answer that question?

23 A No.

24 Q You also stated that you reran the SCIS model

[Witness: Petzinger]

1 essentially seeking to replicate what Bell Atlantic
2 did, is that correct?

3 A I did two -- First, what I did was I simply viewed the
4 results that were provided in the SCIS electronic
5 version they gave me, without replicating anything. I
6 simply opened it up and looked. And, the results, the
7 total number didn't match any of the numbers that I
8 could find in the workpapers. And, then, what I did
9 was, assuming that maybe it needed to be calculated
10 again, I just pushed the "recalculation" button, and it
11 generated a different number, but it still was not a
12 number that matched anything.

13 Q And, the number, I think you stated, was approximately
14 \$146?

15 A Per line.

16 Q Per line.

17 A Yes. So, the actual result that SCIS generates is a
18 total number, similar to the total number at the top of
19 this Exhibit 62 page we keep referring to. And, the
20 actual -- the actual investment, when I recalcd, was,
21 instead of 127.4, was 114.2 --

22 Q I see.

23 A -- million.

24 Q So, it's approximately \$13 million. Which, by the way,

[Witness: Petzinger]

1 corresponds to the amount of ISDN investment that Bell
2 Atlantic incorporated, is that correct?

3 A The ISDN investment is wrong.

4 Q I wasn't asking you whether it was right or wrong. I
5 was asking you whether the so-called missing 13 million
6 dollars, when you recalculated SCIS, seems to
7 correspond to the \$13 million approximately of ISDN
8 investment?

9 A I don't know. I don't have that piece of paper with
10 me.

11 Q You don't know one way or the other?

12 A No, I'm not sure what the ISDN number was, the final
13 result number was.

14 MR. DEL VECCHIO: See if I have
15 something more here.

16 BY MR. DEL VECCHIO:

17 Q I'd like to turn your attention, if I could, or I'd
18 like to ask you to turn your attention to the
19 stipulation. Do you have a copy of that?

20 A No, I don't.

21 MR. DEL VECCHIO: Have an extra
22 copy?

23 (Atty. Salinger handing document to
24 the Witness)

[Witness: Petzinger]

1 BY MR. DEL VECCHIO:

2 Q And, I'm sorry, does that version have the attachments?

3 A It appears to, yes.

4 Q Can you direct your attention please to Attachment 1?

5 A Yes.

6 Q And, that's labeled "Local Switching Costs End Office".

7 Okay. Now, I think you had some complementary things
8 to say about the degree to which the switching costs
9 under the stipulation varied from the original proposal
10 by Bell Atlantic, noting, of course, your further
11 argument that those costs were too high, is that fair?

12 A Yes, the complement was in the same way that I'd pay
13 only \$25,000 for a ten year old Chevy, as opposed to
14 \$50,000.

15 Q I see. So, as you said earlier, you're really a
16 forward-looking expert, not an embedded cost expert,
17 correct?

18 A Yes, that's correct.

19 Q So, therefore, one would assume that you'd be familiar
20 with forward-looking costs in other states, correct?

21 A Before we go too far down this road, I am an expert in
22 investment, not in the ultimate cost.

23 Q So, you have no idea then of the relationship between
24 the costs, for example, set forth on Attachment 1 of

[Witness: Petzinger]

1 Exhibit 61 to investment?

2 A Yes. I have a general understanding of how it equates
3 to investment, yes. But there's lots of steps that
4 occur after the investment, including, you know,
5 depreciation and capital cost, and all kinds of things
6 that I know very little about, actually.

7 Q Fair enough. Focussing, though, on the bottom line, if
8 you will. If you direct your attention to the "Total"
9 column, which is "F=C+D+E".

10 A Yes.

11 Q Are you with me?

12 A Yes.

13 Q Isn't it true that these numbers are substantially
14 lower than TELRIC compliant long run costs adopted in,
15 for example, Massachusetts?

16 A I have absolutely no knowledge of Massachusetts, I'm
17 sorry.

18 Q Isn't it true that these numbers are substantially less
19 than TELRIC compliant forward-looking costs adopted in
20 almost any other Bell Atlantic state? Or, do you have
21 no knowledge of that as well?

22 A I have not worked in any of the Bell Atlantic states,
23 nor for South, except for in New York recently, but
24 that was after the initial rates were set. If I

{DE 97-171} [Track 2 - Day III] (9-03-98)

[Witness: Petzinger]

1 remember, they are lower than that, but I can't be sure
2 whether all of these are lower. I just don't remember.
3 I was there to do what they called a "Phase 3 Study",
4 and we were not.

5 Q Certain of these rates, though, look lower than even
6 those adopted in New York, is that correct?

7 A Some of the -- The analog port rate does look -- does
8 look lower, but I'm not -- I cannot be certain of that.

9 Q Let me see if I can summarize this. Do you have any
10 evidence to support the contention that there are
11 higher switching costs adopted by Commissions in the
12 Bell Atlantic region, pursuant to TELRIC compliant
13 forward-looking cost studies, than those set forth on
14 Attachment 1? Do you have any evidence to support
15 that?

16 A No. As I said, I'm not familiar with anything in Bell
17 Atlantic.

18 MR. DEL VECCHIO: Thank you. Mr.
19 Chairman. Nothing further at this time.

20 CHAIRMAN PATCH: Ms. Jackson, do
21 you have any questions?

22 MS. JACKSON: Staff has no
23 questions of this witness.

24 CHAIRMAN PATCH: Mr. Homeyer?

[Witness: Petzinger]

1 MR. HOMEYER: No questions.

2 CHAIRMAN PATCH: Mr. Salinger, do
3 you have anything you wish to --

4 MR. SALINGER: Three points to
5 clarify.

6 REDIRECT EXAMINATION

7 BY MR. SALINGER:

8 Q At the outset of Mr. Del Vecchio's cross-examination,
9 he pressed you repeatedly on the notion that SCIS can
10 produce forward-looking costs. I take it that you were
11 trying to emphasize that the inputs here are key, that
12 SCIS is not a useful costing tool, if it's based on
13 inputs that are not reasonable and are not
14 forward-looking?

15 A Exactly. As with any model, and I don't know if you've
16 ever heard the term, but "garbage in, garbage out". If
17 the inputs are not relevant to what you are studying,
18 and in this case it should be the forward-looking,
19 efficient cost of switches generally available, then
20 the outputs will not reflect that.

21 Q Mr. Del Vecchio was also asking you about the relevance
22 of the most recent prices for switching available to
23 Bell Atlantic. You emphasized that it was also
24 important for the Commission to take into account the

[Witness: Petzinger]

1 effect of the Bell Atlantic/NYNEX merger and on its
2 forward-looking switch prices. Can you explain what
3 you meant by that?

4 A When a merger of this magnitude takes place, the
5 effective buying power of going to these vendors and
6 saying "Okay, I want you to give me a price for "X"
7 number of switches", they can now say "I want to spread
8 the number of switches over the entire Bell Atlantic
9 North and South territory." They're potentially
10 doubling the number of switches they will be purchasing
11 when they go into negotiations. That gives you the
12 ability to radically have more buying power and extract
13 more favorable terms.

14 In addition, I know the Bell Atlantic merger
15 has stated, they expect millions, hundreds of millions
16 of dollars in investment savings. Some of that has to
17 come from switching. I can't imagine it was all
18 expected to be from other parts of the network.
19 Switching has to be a part of that. But yet we have
20 seen no adjustments whatsoever to account for this.

21 Q And, in your prefiled testimony, as well as the opening
22 summary you gave of that this morning, you emphasized
23 the importance of the Commission looking not just at
24 Bell Atlantic switch prices, but at what other

[Witness: Petzinger]

1 telephone companies have managed to pay. And, you, for
2 example, discussed the Gabel study results in the NRRI
3 paper, and you also discussed the other RBOC data in
4 your prefiled testimony. And, could you just explain
5 again why those other indicia of what might be
6 reasonable forward-looking switch costs are important
7 here?

8 A I mean, those represent newer numbers, and reflect the
9 downward trend of switching prices that is relatively
10 universally accepted. And, none of those numbers in my
11 testimony do I necessarily advocate as being the one
12 right number. I was just trying to give some range and
13 benchmarks of what should be considered in the process
14 of "what is the forward-looking cost of switching?" To
15 look at just New Hampshire isn't really enough, because
16 Bell Atlantic will be purchasing their switching Bell
17 Atlantic wide. They don't go out and just buy --
18 purchases a separate contract for New Hampshire. These
19 contracts are for all of Bell Atlantic, as are the
20 other large RBOCs that can, you know, generate these
21 kinds of aggressive purchasing behavior.

22 The other situation, too, is there are terms
23 and conditions in the contracts that do relate to what
24 else is going on in the marketplace outside of Bell

[Witness: Petzinger]

1 Atlantic. And, those should be taken into account.

2 Q And, finally, in your prefiled testimony, as well as
3 your opening statement this morning, you explained it
4 with some care why it is that the more than 50 percent
5 installation factor of Bell Atlantic was excessive.

6 Mr. Del Vecchio followed up on that and asked you
7 whether use of a lower installation factor would mean
8 that Bell Atlantic might not recover actual costs of
9 its current labor force going forward. Could you
10 explain whether that consideration is relevant and why?

11 A Well, again, I think the number that makes sense to me,
12 based on what we know, is about a 20 percent
13 installation factor. That represents to me what is
14 Bell Atlantic South's current cost of installing and
15 engineering switches, both including the vendor
16 installation and including their own local telephone
17 company installation. With the merger going forward,
18 it is entirely appropriate to expect Bell Atlantic, as
19 a corporation, to try to take the best practices from
20 the two different companies and make them effective
21 across the whole company, as was mentioned earlier by I
22 think it was Mr. Baker, regarding some guidelines about
23 how they do right to use fees, he said that, you know,
24 "NYNEX did it one way, and that has been now spread

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[Witness: Petzinger]

1 across all of the Bell Atlantic territories." So,
2 we've already seen evidence that Bell Atlantic is
3 trying to run its company as a merged entity, and that
4 high cost, inefficient ways of doing things will be
5 weeded out going forward. That, to me, would be their
6 objective, and mandatorily so.

7 BY CHAIRMAN PATCH:

8 Q Are they limited, you know, if you talk about it in the
9 context of the installation factor, are they limited by
10 labor agreements, do you think?

11 A That's always a possibility. But, again, in a long run
12 cost study, since I don't know what the labor
13 agreements are --

14 Q Though, shouldn't we take into that into consideration?
15 I mean, isn't there an element of realism that has to
16 come into this?

17 A You're asking a difficult question. And, you're right.
18 I think there is some realism. But we also have to
19 assume that, not only may there be labor increases,
20 but, first of all, from a pure realist's perspective,
21 those should be offset by productivity gains. The
22 other side of the coin is that, if you include all of
23 the incumbent's hindrances that are associated with
24 their current way of doing business, because of the

[Witness: Petzinger]

1 historical evolution of the business, then what's going
2 to happen is the costs are going to come out too high.
3 And, the new entrants are simply not going to be able
4 to compete, because we will not be able to stand those
5 kinds of prices. Yes, the ideal situation is we would
6 be able to bypass the unbundled network element and put
7 in our own facilities. But you can't do that
8 everywhere all in one fell swoop. So, until we can get
9 those facilities in, we have to be looking at
10 alternative ways of competing effectively. And, the
11 price we pay for the unbundled network elements should
12 be somewhat comparable to what the new entrants are
13 going to face when they go in.

14 It's a tough situation. And, to be honest, I
15 think it's more of a question for Mr. Siwek, who will
16 be able to answer it from an economist's perspective,
17 because that's really an economics question.

18 MR. SALINGER: I have nothing
19 further.

20 CHAIRMAN PATCH: Okay. Any other
21 questions? Mr. Del Vecchio.

22 MR. DEL VECCHIO: Two questions.

23 RECROSS-EXAMINATION

24 BY MR. DEL VECCHIO:

[Witness: Petzinger]

1 Q First, Ms. Petzinger, is it correct that all of the
2 switches in New Hampshire are currently digital
3 switches?

4 MR. SALINGER: Objection. That's
5 outside the scope of the redirect.

6 MR. DEL VECCHIO: Not at all, Mr.
7 Chairman. We were talking about issues of the kinds of
8 costs we're likely to incur and the reliance on recent
9 pricing. And, I think it's important just to establish a
10 fact that --

11 CHAIRMAN PATCH: I'd like to hear
12 the answer to the question.

13 BY THE WITNESS:

14 A The only thing I know is what either Mr. Baker or Mr.
15 Bradley said yesterday, and they indicated that they
16 were. But I don't have any direct knowledge of that.

17 BY MR. DEL VECCHIO:

18 Q And, is it true that a digital switch has an average
19 life of over ten years?

20 A I -- You're going to get into an area here that gets
21 really complicated with depreciation and all kinds of
22 stuff. And it's -- you have to explain to me what you
23 mean by "life" in this context?

24 Q Well, is depreciation --

[Witness: Petzinger]

1 A Because it's confusing.

2 Q Is depreciation an element that goes into the costing
3 of switches in a forward-looking study?

4 A As far as I know, it does, but I'm definitely not an
5 expert in that area.

6 Q So, you're not familiar with all the cost inputs that
7 would apply to the costing of switching equipment in a
8 forward-looking study?

9 A No, I mentioned earlier that I know nothing about how
10 this capital costs or depreciation or any of those
11 postinvestment kinds of things are done. I don't have
12 any -- I don't have any expertise in those kinds of
13 issues.

14 Q I see. So, you have no information which would suggest
15 that a digital switch lasts less than ten years, would
16 you?

17 A No. As far as I know, again, it depends on how you
18 define it. There are equipment components that age and
19 are changed out. But if you say that there is going to
20 be a digital switch that was placed, some of them were
21 placed in the early '80s, I have every reason to expect
22 that they're still there, and will be there for quite
23 some time.

24 Q And, those that were placed in 1992 or 1996 will be

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[Witness: Petzinger]

1 there for quite some time as well, fair enough?

2 A I would say that now you're -- the numbers might, you
3 know, might be coming down slightly from, yes, the 20
4 years that we're talking about.

5 Q To ten or above?

6 A I just don't know.

7 Q Okay.

8 A You're asking me to project what technology replacement
9 and obsolescence, and I just am not an expert in that.
10 I don't know that.

11 MR. DEL VECCHIO: Very good. Thank
12 you, Mr. Chairman.

13 CHAIRMAN PATCH: Any other
14 questions?

15 MR. SALINGER: No.

16 CHAIRMAN PATCH: Thank you for your
17 testimony.

18 MS. JACKSON: May I ask a question
19 on -- for recross?

20 CHAIRMAN PATCH: Sure.

21 RE CROSS-EXAMINATION

22 BY MS. JACKSON:

23 Q Ms. Petzinger, if an incumbent, as you stated just a
24 moment ago, if an incumbent is hindered by high costs,

[Witness: Petzinger]

1 due to its unique labor contracts that we were talking
2 about, wouldn't that suggest that a competitor would
3 have an opportunity to perform that function less
4 expensively, not being subject to that contract?

5 A I'm assuming that that's -- that is a possibility.

6 MS. JACKSON: Okay. Thank you.

7 CHAIRMAN PATCH: Thank you. As I
8 understand it then, we have next the AT&T panel, is that
9 right?

10 MR. SALINGER: Yes, Mr. Siwek and
11 Mr. Wells. And, we also just have a housekeeping matter,
12 the rebuttal testimony of Mr. Globerson. The parties have
13 stipulated that, since nobody has any cross-examination of
14 Mr. Globerson, he needn't appear. But I'd like to have his
15 testimony marked as the next exhibit for the record please.

16 CHAIRMAN PATCH: And that's 90?

17 THE CLERK: Ninety.

18 CHAIRMAN PATCH: Exhibit Number 90.

19 (The document, as described, was
20 herewith marked as Exhibit 90 for
21 identification.)

22 (Whereupon Stephen E. Siwek and
23 James W. Wells, Jr., were duly
24 sworn and cautioned by the Court